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Ecuador

Coffee

Annual

2006

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Report Highlights:

Coffee production in Ecuador is expected to increase to 805,000 60-Kilo bags GBE in MY 2007 due mainly to higher local and international prices. A larger portion of Ecuador's coffee exports correspond to soluble and instant coffee products. Coffee exports are forecasted at 876,000 Bags in MY 2007. Ecuador also imports Robusta beans in order to process into instant coffee for local consumption and for export.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Unscheduled Report
Quito [EC1]
[EC]

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Executive Summary

Coffee production for Marketing Year 2007 (April 2006/March 2007) is expected to increase to 805,000 60-Kg bags (BAG) green bean equivalent (GBE), up from a revised production of 784,000 BAG in MY 2006. Increased world demand and better international prices will encourage coffee farmers to harvest more coffee this year, being Arabica production higher than Robusta because of its higher price.

Ecuador's local consumption figures have been revised to reflect the green bean equivalent and are estimated at 147,000 BAG GBE per year, 96% of which is consumed as soluble or instant coffee. Coffee exports for MY 2007 are forecasted at 876,000 BAG, 67 percent of which are soluble and instant coffee products. In order to meet the industry's demand of Robusta coffee beans in CY 2005, Ecuador imported and nationalized 126,000 BAG of Robusta beans from Vietnam, Indonesia and Brazil. Additional imports were made under temporary admission regimes, but those statistics are not yet available. For the upcoming MY 2007, Ecuador is forecasted to import 130,000 BAG of Robusta beans.

PSD Table**Country****Ecuador****Commodity****Coffee, Green**

(1000 HA)(MILLION TREES)(1000 60 KG BAGS)

	2005	Revised	2006	Estimate	2007	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		04/2004		04/2005		04/2006	MM/YYYY
Area Planted	215	215	210	215	0	218	(1000 HA)
Area Harvested	193	188	198	200	0	208	(1000 HA)
Bearing Trees	185	185	184	185	0	185	(MILLION TREES)
Non-Bearing Trees	5	5	6	6	0	3	(MILLION TREES)
TOTAL Tree Populat	190	190	190	191	0	188	(MILLION TREES)
Beginning Stocks	34	34	165	3	95	10	(1000 60 KG BAGS)
Arabica Production	533	398	550	439	0	450	(1000 60 KG BAGS)
Robusta Production	405	335	400	345	0	355	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	938	733	950	784	0	805	(1000 60 KG BAGS)
Bean Imports	162	1	170	126	0	130	(1000 60 KG BAGS)
Roast & Ground Imp.	0	0	0	1	0	1	(1000 60 KG BAGS)
Soluble Imports	90	87	95	90	0	91	(1000 60 KG BAGS)
TOTAL Imports	252	88	265	217	0	222	(1000 60 KG BAGS)
TOTAL SUPPLY	1224	855	1380	1004	95	1037	(1000 60 KG BAGS)
Bean Exports	216	230	430	278	0	285	(1000 60 KG BAGS)
Roast & Ground Exp.	1	1	1	1	0	1	(1000 60 KG BAGS)
Soluble Exports	544	481	550	570	0	590	(1000 60 KG BAGS)
TOTAL Exports	761	712	981	849	0	876	(1000 60 KG BAGS)
Rst,Ground Dom. Cons.	66	5	69	5	0	6	(1000 60 KG BAGS)
Soluble Dom. Consum.	232	135	235	140	0	141	(1000 60 KG BAGS)
TOTAL Dom. Consu.	298	140	304	145	0	147	(1000 60 KG BAGS)
Ending Stocks	165	3	95	10	0	14	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	1224	855	1380	1004	0	1037	(1000 60 KG BAGS)

Export Trade Matrix

Country Ecuador
Commodity Coffee, GBE

Time Period:	CY	Units:	60-kg Bag
Exports for:	2004		2005
U.S.	155.814	U.S.	78.151
Others			
Germany	166.415	Colombia	179.700
England	101.543	Germany	156.208
Poland	69.993	Poland	125.936
Japan	38.050	England	106.948
Belgium	36.012	Letonia	53.612
Russia	25.483	Japan	40.178
Total for Others	437.496		662.582
Others not Listed	118.960	Others	108.000
Grand Total	712.270		848.733

Import Trade Matrix

Country Ecuador
Commodity Coffee, GBE

Time Period	CY	Units:	60-Kg Bag
Imports for:	2004		2005
U.S.	878	U.S.	353
Others		Others	
Colombia	71.144	Vietnam	82.446
Venezuela	11.180	Colombia	64.113
Brazil	2.743	Brazil	31.573
Peru	770	Indonesia	18.216
		Ivory Coast	7.550
Total for Others	85.837		203.898
Others not Listed	1.300	Others	18.000
Grand Total	88.015		222.251

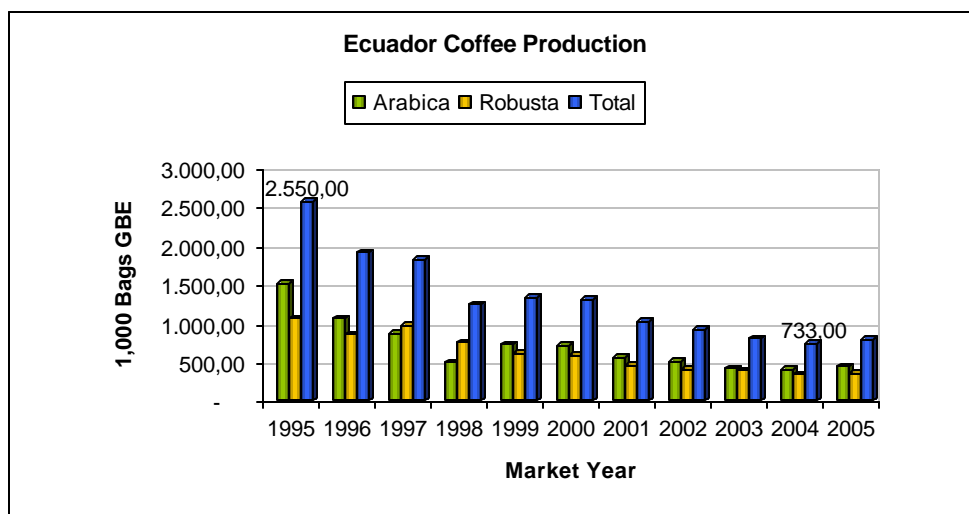
Prices Table

Country Ecuador
Commodity Coffee, Green

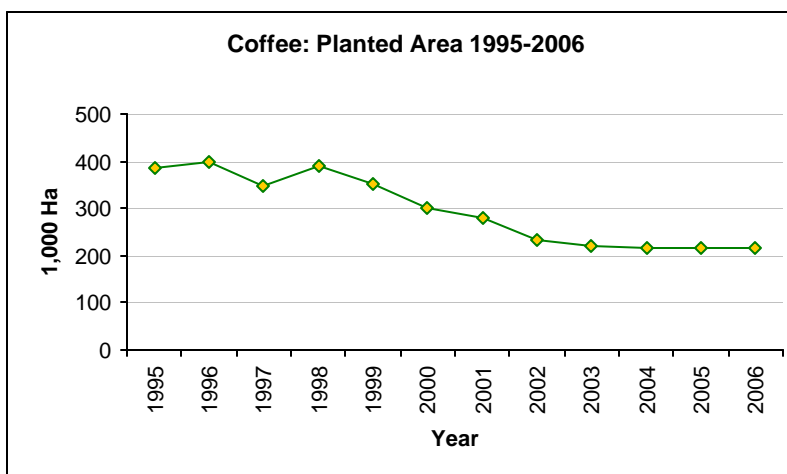
Prices in	US\$	per uom	45,37 Kg
Year	2004	2005	% Change
Jan	32	90	181%
Feb	35	100	186%
Mar	38	115	203%
Apr	43	85	98%
May	44	90	105%
Jun	51	100	96%
Jul	60	95	58%
Aug	50	95	90%
Sep	60	85	42%
Oct	60	80	33%
Nov	60	90	50%
Dec	71	90	27%
Exchange Rate	1 US\$	Local Currency/US \$	

Production

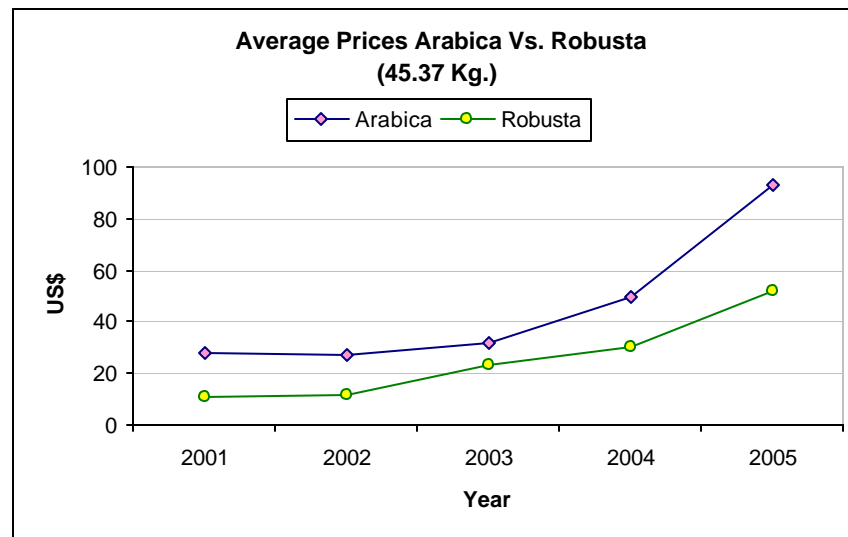
Coffee production is expected to grow by 2.7% to 805,000 60-kilogram bags (BAG) Green bean Equivalent (GBE) on 218,000 planted hectares during Marketing Year 2007 (April 2006/March 2007). This increase is explained by higher prices of coffee paid to farmers locally and to exporters internationally. However, as many farmers had abandoned their plantations due to depressed prices in past years -more notably in 2003- coffee plantations are in bad shape and their capacity to respond to this market opportunity is very limited. This explains the small projected growth for MY 2007.



Another factor affecting productivity is that a high percentage existent trees are close to 40 years of age, and their productive capacity continues to decline. Approximately 100 million trees need to be replaced, but most Ecuadorian farmers do not have the resources to do that and therefore they abandon their plantations or to simply replace them with other crops. However, the National Coffee Council (COFENAC) is currently implementing a tree renovation project in 10 producing areas of Ecuador, with productive results expected in the mid-term.



Given the aforementioned price factor, the harvested area is expected to increase slightly by 4% to 208,000 Ha in MY 2007, with a tendency to stabilize if international prices continue with their current growth tendency. As in past years, Arabica production (56% of total) is expected to be higher than Robusta given a marked tendency for noticeably higher prices of Arabica. For MY 2007, Ecuador is expected to produce 450,000 BAG of Arabica and 355,000 BAG of Robusta. This and other factors have lead to increased imports of Robusta coffee beans in the recent past.



Production figures for MY 2005 and MY 2006 have been revised to reflect actual events, coffee prices being the key issue for lower or higher production during the past few periods. Local prices for Robusta recovered in 2005 (\$64 per BAG) after remaining low (\$30 and \$39 per BAG) in 2003 and 2004. Prices for Arabica averaged \$122 per BAG in 2005, which has pushed for more harvesting of Arabica beans than Robusta. This trend is expected to continue as Arabica prices remain higher. Note: Prices shown in Price Table for Arabica.

Consumption

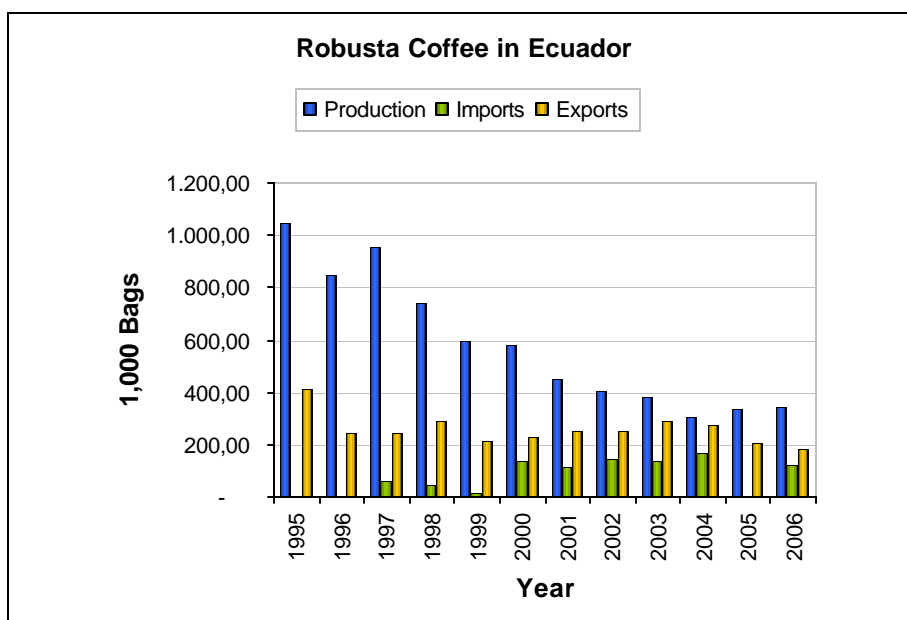
Consumption figures have been revised to reflect GBE. Local demand for MY 2007 is estimated at 147,000 BAG. The tendency of Ecuadorians is to consume more soluble coffee than roasted and ground coffee in approximate proportions of 96 percent instant to 4 percent roasted/ground. This consumption pattern is explained by changes in habits of consumers in the past 20 years towards economy and ease of use. Thus, a shorter preparation time has replaced the need for good taste and body in hot coffee drinks. Instant coffee is very popular in Ecuador, and several national and imported brands offering large variety of instant coffee products are present in the market: Café Press 2, Sí Café, Minerva and Expresso from Ecuador, and Dolca and Nescafe from Colombia.

Trade

Exports of coffee and coffee products for MY 2007 are forecasted to increase to 876,000 BAG; 3.2 percent up from the revised figure of 849,000 BAG for MY 2006. Both beans and soluble exports are expected to increase –more notably soluble- due mainly to higher prices in the international markets. Soluble exports, currently at 570,000 BAG GBE are expected to maintain a growth tendency despite lower production of Robusta varieties in

Ecuador. In addition to that, the coffee industry has gained markets for coffee extract; freeze dried coffee, agglomerated, spray dried coffee, and flavored coffee. Thus, Ecuador exported some 56,000 BAG GBE of spray dry coffee (lyophilic coffee) in CY 2005. PSD tables have been updated to show actual export data for marketing years 2005 and 2006.

Given lower prices and smaller production of Robusta compared to Arabica, plus a higher local and international demand for soluble coffee products, Ecuador's coffee industry has increased its Robusta imports in the recent past. Robusta is used as an ingredient that provides consistency to a blend with Arabica used to make instant coffee. Ecuador imported 126,000 BAG of Robusta beans in MY 2006 and is forecasted to import some 130,000 BAG in MY 2007 in order to meet the demand of the soluble coffee industry. Bean imports originate mainly in Vietnam, Brazil and Indonesia. The majority of Robusta bean imports are under temporary admission regimes as a condition to export once industrialized, therefore figures register only the product that was nationalized.



In addition, Ecuador exports Robusta beans and imports significant quantities of instant coffee to and from Colombia. It is important to notice that a large portion of Ecuador's bean exports (some 180,000 BAG in CY 2005) are Robusta beans exported to Colombia. The obvious question of how can Ecuador export 570,000 BAG of soluble coffee when a large portion of its Robusta production is exported is explained by imports. The reason for exports to Colombia instead of local use is based on price: Producers get lower prices when selling their Robusta to the local industry and rather obtain a better price when the same beans are exported to Colombia. Import data in the PSD table has been changed to reflect actual data for marketing years 2005 and 2006.

Ecuador's main markets for coffee and products in CY 2005 were the Germany, Poland, England and the United States. The US market for industrialized Ecuadorian coffee is only 1.5 percent. Data shown in the trade matrixes reflect trade of all coffee products including beans, soluble, extracts and others.

Policy

Ecuador's coffee policy is established by a private institution, the National Coffee Council (COFENAC). According to the law, COFENAC is the institution in charge of implementing the Law for the Coffee Industry.

This law provides a framework to promote and organize a modern coffee industry, to deal with the fluctuations of international coffee prices, and to provide loans through private banks at preferential interest rates for the rehabilitation, renovation, and maintenance of coffee plantations. The primary goal of the loans provided by COFENAC is not to increase planted and harvested areas, but to provide access to better coffee seedlings in order to improve quality and increase yields. Currently, COFENAC is implementing the first phase of a tree renovation project in several areas of Ecuador. It is expected that some 200,000 coffee trees would be replaced nationwide.

COFENAC has also led a project aimed at identifying markets for organic and gourmet coffee and encouraging consumption and production of these specialty coffees. A number of farmers started production of organic coffee in 2004 and have already exported 17,000 BAG of organic roasted/ground coffee in 2004 and 2005. The European Union is the main destination of these exports.

Coffee bean producers and coffee bean exporters think that the return to the quota system for exportation will encourage coffee farmers to make investments in the sector both in planting and in harvesting. However, the coffee industry sector thinks that the return to the quota system will increase the prices of beans making the industry less competitive in the international market.